

SENATE COMMITTEE ON FOREIGN RELATIONS

TESTIMONY OF ROBERT A. KAPP

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Mr. Chairman, members of the Committee:

I am grateful for the opportunity to speak to you today.

I am Robert Kapp, president of the United States-China Business Council. The Council, established in 1973, serves more than 250 leading US companies from its Washington headquarters and its field offices in Beijing, Shanghai and Hong Kong with a combination of direct business advisory assistance, publications including The China Business Review, meetings and conferences, and public policy research and advocacy.

I have attached a number of additional documents for the Committee's review, and hope that they will be of interest to Members. A number of my comments in this testimony are keyed to the attached materials.

I. China's multiple image in the United States and the problem of perspective (Busy Readers Proceed Directly to II. below)

Mr. Chairman, I must tell you that I hope I am in the right room, at the right hearing.

When I accepted the Committee's invitation to testify, I received a confirming note indicating that the hearing was entitled, "Permanent Normal Trade Status: Implications for U.S. Policy Toward China." Four days later, as I prepared to write my thoughts, I checked the Foreign Relations Committee web site to confirm details of the hearing, and was surprised to discover that the hearing was now called, "Rewarding the People's Republic of China with Permanent MFN: Implications for U.S. Policy."

That curious difference in naming this hearing, small and yet heavily laden with interpretive intent, is a metaphor for much of our nation's habit in perceiving China. Since the US-China encounter began in the mid-nineteenth century, it has been difficult for Americans to separate what they see in China from what they want to see in China or what they want to believe about China. "Wishful thinking" has vied with "demonization" for far longer than the oldest of us in this room can personally remember. That's true for people in business, in politics, in religion, in the media, and in much of American society.

A century ago, the United States Congress was knee-deep in high-intensity debate over China. The issue then was closing American borders to immigrants from China, a policy first enacted into law in the Geary Act of 1892 and impelled both by demands from labor organizations and by widespread hostility in American life toward the Chinese and their alien ways.

The leader of the American Federation of Labor published a pamphlet on the subject in 1902: "Some Reasons for Chinese Exclusion, Meat vs. Rice, American Manhood Against Asiatic Coolieism: Which Shall Survive?"

The US Commissioner-General of Immigration and former head of the Knights of Labor, Terence Powderly, said in 1901, "No graver danger has ever menaced the workingmen of America than that which faces them when the possibility of lowering the bars at our seaports and border-lines to the Chinese is presented."

Senator Teller of Colorado weighed in: "If I knew the passage of a proper exclusion bill would destroy every dollar's worth of trade between us and China, I should vote for the exclusion bill. I know that the trade between here and China is not worth the admission of Chinese hordes into this country, and if I had to choose between the two I should take the exclusion."

A hundred years later, passions still swirl. Members of this Committee know well that analysis of things Chinese is now an industry in Washington. Armies of analysts ponder and project China's behavior, usually along eye-glazingly familiar lines.

Rather than attempt to swim in that stream today, I have chosen to append to my testimony two thoughtful essays, neither by a so-called "China expert," on the ways in which we have been debating about China in the US at the end of the twentieth century. One essay, from the conservative National Review, is by the editor of The National Interest, Owen Harries. The other is by a member of the Baker Institute at Rice University. I believe both perspectives are worthy of the Committee's attention.

II. The key point on why PNTR should be approved is that the economic merits are compelling. The terms of China's WTO accession, as brilliantly concluded after negotiations that have spanned the Reagan, Bush and Clinton presidencies, are very, very good. No amount of politicking and strategizing and spinning and horse trading and looking for cover can obscure the breadth of the economic breakthroughs embodied in our WTO agreement with China. Senators by now have

plenty of access to the content of the agreement; it is available publicly, at the US-China Business Council web site, www.uschina.org.

With its decision on PNTR, Congress will either bring home to the American people the genuine equality of economic market opportunity in China for American farmers, American workers, and American companies that we won on paper at the bargaining table last fall, or it will cede that equality of opportunity to our competitors in Japan, Europe, and elsewhere while the U.S. walks away. If we treat WTO member China differently than we treat the remaining 133 WTO members, we don't receive China's WTO terms in return. That, above all, is why Congress should pass PNTR.

This point is further developed in the attached article, entitled In Full and on Time. Since that article was penned, I am pleased to note how much more fully Members of the House and Senate have come to appreciate that essential starting point. Let me, therefore, move on.

III. PNTR is not a “favor” to China. It is not a “reward” for Chinese behavior, “bad” or “good.” It is not a “blank check” for China. These anti-PNTR rhetorical devices are just that: rhetorical devices. Their authors know full well that the real issue in PNTR is whether the US gains the benefits of China's commitments—made at our insistence—to wide-ranging reductions of trade barriers and to improvements in the ways that the Chinese economy will engage with the world economy. The “reward” to be reaped or rejected is a reward to the United States.

Much of the silliness about “rewarding” China stems from a long-running and long-stoked confusion about what Congress is deciding in the PNTR vote. This PNTR vote is not, as Members are coming more and more to understand, about whether to “let China in” to the WTO. Congress doesn't vote on that. We arm-wrestled China to a strong WTO agreement last fall; we got what we demanded, much of it very, very painful to China and bitterly opposed by many powerful groups within China. We signed because we were legitimately satisfied with what China agreed to. Period. Congress does not legislate the content of that agreement, and it does not vote on whether China enters the WTO; the WTO's members decide that, and the US will support entry.

IV. Dealing with the mythic problem of “leverage.” One can understand the reluctance of the Congress to relinquish roles it has exercised in the past. That, I think, is partly the origin of the notion that it is necessary to retain the current Jackson-Vanik system of annual review of US tariff policy toward China, even at the price of unilateral economic disarmament in the post-accession Chinese economic environment.

To be blunt, the “leverage” issue is an issue of convenience. Because it can never be conclusively shown to exist, it can live forever in some minds, and it can be used forever to pursue certain policy goals or agendas.

It reminds me of the notion that if you stare at the sky long enough you will see flying horses. If you don’t see them, it only means you haven’t stared at the sky long enough. Keep staring.

Let me put it simply: If China after twenty years of annual MFN/NTR review is as terrible a place, as full of iniquity and as offensive to our sensibilities as PNTR’s organized opponents say it is, why would anyone in his or her right mind consign China to more of the very same American treatment that has in his or her view so totally failed to change China for the better?

In fact, there is more “leverage” in this WTO package than the United States has ever achieved with China before. China’s agreement to open its economy to unprecedented levels of foreign participation; to abide by WTO prescriptions that strike to the heart of the way its economy will function and its regime will deal with its own citizens; to eliminate discriminatory conduct and develop transparency of procedure; to axe such offensive habits as the requirement that foreign companies transfer technology in order to do business in China or that they export their products from China—this commitment, backed by WTO provisions for dispute resolution and multilaterally-imposed sanctions represents a degree of real “leverage” far more significant than the mythical power with which some PNTR opponents endow the current annual renewal exercise.

If this is painful to admit, so be it. The nagging disconnection between influence, is an uncomfortable one that approving PNTR will not entirely erase.

VI. Other key arguments thrown against Congressional approval of PNTR have proven gossamer as this debate has unfolded. I deal with them mostly in the attached article, “Cutting Through the Smoke.” That article speaks to the “Great Sucking Sound” prediction of catastrophic loss of U.S. employment if PNTR passes. The fact is that whether the Chinese economy grows at 10 percent a year or shrinks at 10 percent a year is going to have far more to do with the impact of US-China trade on US employment than anything in China’s WTO accession package. And the fact is that whether the US economy continues to move ahead in the manner of its current long-running advance or encounters tougher sledding in the future will have far more to do with overall US employment levels than will developments in US-China trade.

“Cutting Through the Smoke” also takes up the claim that our 1979 bilateral trade agreement with China automatically ensures that the U.S. will reap the full benefits of China’s WTO commitments without treating China as a full WTO member. (Two publications not attached here, GAO report 00-94, March 2000 and the new Institute of International Economics Policy Brief Number 00-3, “American Access to China’s Market: The Congressional Vote on PNTR,” issued April 10, provide an authoritative decent burial for this mistaken assertion.)

VII. On the demand that Congress turn PNTR down out of solicitous concern for the welfare of China’s laboring population, I commend to Members’ attention the attached open letter from twelve distinguished American academic specialists on China’s economy and society, entitled “PNTR, WTO and Chinese Labor Standards.” With regard to the towering environmental challenges which a rapidly modernizing China faces, I simply ask whether denying to Americans the access to China’s market for many of the services that buttress economic efficiency, waste reduction, pollution control, and more sophisticated assessment of the costs of economic and social development will make a positive difference to these enormous problems. Does tilting China’s market away from American corporations that apply advanced environmental standards to their operations worldwide, while other countries’ enterprises with less stringent standards remain free to operate, advance China’s environmental progress? Could anyone maintain with a straight face that the long-term policy goal of drawing China into international commitments on the environment will be made easier if the US turns its back at the last moment on the results of 13 years of negotiation with the PRC over the WTO issue?

VIII. On the notion that China cannot and will not live up to its commitments under international agreements, in which the intellectual property issue is commonly alluded to, I refer Members to the attached open letter from the full range of associations of US firms in the “creative industries,” calling for China’s WTO inclusion and for passage of PNTR in full recognition of the current inadequacies of intellectual property protection in China. These associations are the ones that prosecuted America’s case against China over IPR in 1995 and 1996. They address the “China doesn’t abide by its commitments” challenge well, and I hope Members will take the time to consider their views.

IX. Conclusion. Mr. Chairman, the overheated debate over PNTR for China, with the spectre of an election year hanging overhead, threatens to drown the core issues of the PNTR decision in an ocean of hyperbole. We need to resist those distractions. I believe the national interest will be better served by a decision to approve PNTR on its humbler merits.

Loading down the PNTR issue with all the baggage of America's dilemmas over China's modernization will not resolve those dilemmas.

Framing the PNTR decision as part of a strategic US effort to bring about what is sometimes called "regime change" in China is an exercise in futility.

Mobilizing thousands of constituents against a pending decision not to change US tariffs on imports from one nation, on the spurious grounds that the decision is a "favor" to Chinese malefactors, is certainly the right and the privilege of PNTR's opponents in our free society, but it is not the foundation of effective policy.

On the other hand, attributing to PNTR miraculous powers to rout the forces of evil and bring about the Millennium is not a wise choice either.

Approving PNTR is not going to bring peace or war between the PRC and Taiwan. It is not going to create a multi-party electoral democracy in Beijing. It is not going to establish habeas corpus or judicial review in China. It is not going to get people out of jail—or put people in jail.

It is not going to validate the assertions of the legions of "China Threat" advocates. Nor will it transform China into an earnest ally of the United States against enemies seen or unseen.

If the PNTR issue does have significance beyond the absolutely critical economic merits that I have touched on above, I would suggest the implications are twofold.

First, we should expect that progress with China on the many other issues of contention that we face will be more difficult to achieve if the United States turns away at the very last moment from a signed agreement thirteen years in the making, in which China painfully agreed to a vast laundry list of US demands that strike to the heart of China's economic system and even touch on the PRC's political future.

Passing PNTR does not guarantee the successful resolution of our differences on many other troubling issues. I am confident, however, that killing PNTR will have a long-lasting and negative impact on prospects for management of those conflicts.

Second, and most important, whether we like it or not the humble PNTR vote has become a defining moment in the determination of America's response to China's gigantic and perplexing post-Mao effort at rapid modernization based on expansion of market economics and integration with the world economy.

China will enter the WTO, on terms we have largely framed. It will accommodate itself to the requirements the WTO imposes on all members, or pay a heavy price if it fails to do so.

Will the US welcome China's inclusion under the standards the world imposes upon it, helping to ensure China's evolution along paths that Americans hope it will travel while at the same time maximizing the resulting domestic economic advantages?

Or will the US tread, at the beginning of the 21st century, a path all too similar to that advocated by Senator Teller of Colorado at the start of the last century, as quoted at the beginning of this testimony? I have every confidence that the Congress will take the right path. Thank you.